Wednesday June 16, 2004

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 6/15): 42,435 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

Weekly Range at Mid-C:	$10.4- 29.6 per MWh, Ave. = $16.6
Approximate change from previous week	$-12.8 per MWh
"Normal" price range, before 5/00	$20-$40 per MWh
Petroleum, West Texas Intermediate:	$37.18 per barrel (year ago: $31.45)
Seattle gasoline price (6/15)	$2.27 per gallon (year ago $1.57),
Natural gas, Sumas Hub:	$4.91 per million British Thermal Units (year ago $5.07)
Approximate change from last week.	Oil: -0.37 $ per barrel; Nat. gas: -0.49 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

4. Energy News Headlines from around the Nation

- Natural Gas s likely to stay pricey (WSJ, June 14)
- Regulators OK gas pipeline for reopening (Olympian, June 14)
- Vehicle exhaust plan unveiled (Sac Bee, June 15)
- In The Northwest: It's time for consumers to get angry at the FERC (Seattle PI ,June 16)

5. River and Snow Pack Information (Updated: June 15, 2004)

- Observed May stream flow at The Dalles: 79% of average,
- Observed May precipitation above The Dalles: 140% of average,
- Observed snow pack, early May: 66% of average,
- Estimated Jan.-July runoff at The Dalles: 85.1 MAF, 79% of normal,
- Federal hydropower generation in May: 9,057 aMW, 1995-2002 average: 10,368 aMW.

6. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- State Agencies: From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

7. Power Exchanged: (Updated: June 15, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 3,403 MW
  - Canada (exported to) 1,417 MW
  - Net power export: 4,820 MW

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Natural Gas Is Likely to Stay Pricey

Demand Surges as Economy Recovers, While Producers Struggle Just to Keep Pace

By RUSSELL GOLD, WSJ June 14

While crude-oil prices are calming down, natural-gas prices in the U.S. are poised to stay strong. And unlike with oil, there are no big natural-gas producers to step up and fix the problem.

The economic recovery and proliferation of natural-gas-fired power plants continue to rev up demand for the fuel. But energy companies aren't keeping up. In fact, they are struggling just to maintain supplies, which may make natural gas vulnerable to an unprecedented summertime price increase in coming months.

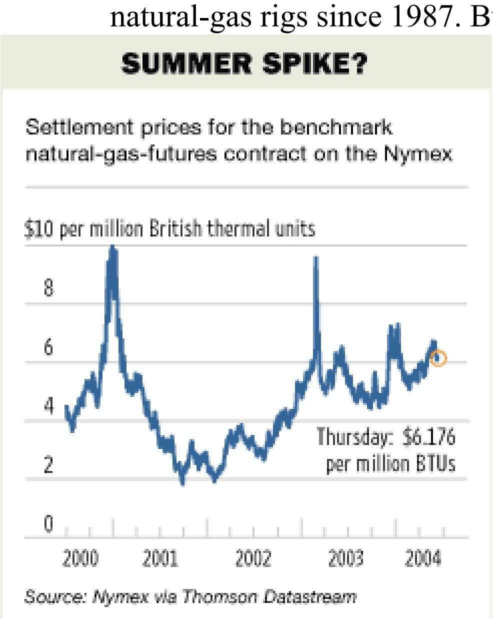
Natural gas -- used for industry, home heating and for the generation of electricity -- is expected to remain pricey for the next year. It has cost more than $5.50 a million British thermal units nearly all year, and last month, traders on the New York Mercantile Exchange bid up contracts for the next 12 months to an average price of $6.75 a million British thermal units, a record. Though both near- and long-term prices have retreated along with crude oil, they still remain high.

Oil prices began to come down after the Organization of Petroleum Exporting Countries this month pledged to increase production in order to curb crude-oil prices. Saudi Arabia, OPEC's most powerful player, has about a quarter of the world's oil reserves and hasn't begun to tap them all.

Natural-gas producers can't drill their way out of their problem. North America natural-gas reserves have been slowly declining since the 1980s, and the low-hanging fruit has been plucked. Importing natural gas is difficult, in part because only a limited number of terminals can accept gas that is super-cooled to be transported.

Instead, the biggest natural-gas producers in the U.S. are mostly rearranging the furniture -- buying each other to get at prized reserves in the Rocky Mountains rather than spending their cash on new prospects. In a different tack, Anadarko Petroleum Corp. last week said it would sell a quarter of its producing properties in North America, putting them in the hands of smaller companies with less financial ability to rejuvenate aging fields. Meanwhile, Anadarko plans to redeploy much of its efforts into faster-growing, more promising regions overseas.

Currently, more than 1,000 rigs are drilling for natural gas in the U.S., close to the 2001 high, and about another 200 are active in Canada, according to Baker Hughes Inc., which has been tracking natural-gas rigs since 1987. But even those that want to increase activity to capitalize on high commodity prices are finding the raw materials aren't necessarily available.



"What we see currently and what we see over the horizon in the next year or two is at best in North America a flat-supply scenario," says Darryl Smette, a senior vice president at Devon Energy Corp., of Oklahoma City, the largest U.S. independent producer of natural gas. "Over the past three or four years, the wells we are drilling in North America have tended to find fewer reserves with greater declines when those reserves start producing."

Overall, reservoirs in North America tend to be inferior and smaller, driving up the cost of production, says Steven Shapiro, executive vice president of Burlington Resources Inc., of Houston.

"The rig count is fairly high, but the productivity that we're seeing out of those rigs is not as high."

However, with higher prices, companies now are focusing on fields that once were passed over because costs were too high. Burlington Resources, for instance, is developing new reserves in central Wyoming's Madden Field. The gas is nearly five-miles deep, twice as deep as conventional wells, and under extraordinary pressure. Drilling so far down can take nine months and requires specialized services to make sure the pressure doesn't blow out the pipe.

The result of these trickier wells, in Madden and elsewhere, is that the search for natural gas in North America has become markedly more expensive. From 2001 through 2003, the three-year average finding cost for natural gas was $1.53 a million BTUs, up 29% from the three-year average the year before, according to a recent analysis by Bear Stearns. Costs are continuing to rise: In 2003, the average finding cost was $1.73 a million BTUs.

With new gas so hard to find and so costly, companies that want to show growth are prospecting on Wall Street. In April, Kerr-McGee Corp., of Oklahoma City, spent $2.5 billion to purchase Westport Resources Corp., the first of three comparably sized deals that included EnCana Corp., of Calgary, Alberta, acquiring Tom Brown Inc. The trend continued last week when Petro-Canada of Calgary, snapped up Prima Energy Corp. for $534 million. Part of the reason behind the recent spate of acquisitions is that it is cheaper to buy known reserves of natural gas than it is to explore for new ones.

But by pouring cash into acquisitions, energy producers are merely swapping reserves, not adding new reserves. Bear Stearns analyst Ellen K. Hannan noted in a recent report that in 2001, the last time more than 1,000 rigs were drilling for natural gas in the U.S., companies replaced 97% of the reserves they took out of the ground with new finds, essentially keeping the cupboard stocked for future years. In 2003, companies replaced 84% of the reserves they took out of the ground.

The largest producers of natural gas in the U.S. -- such as BP PLC of the United Kingdom, Exxon-Mobil Corp., of Irving, Texas, and Chevron-Texaco Corp., of San Ramon, Calif. -- found new gas to replace only 52% of the gas they extracted. "These results should be of major concern for consumers of natural gas," Ms. Hannan said.

That concern applies to the long term as well as this summer. A warmer-than-usual summer would tax supplies as natural-gas-fueled power plants are started up to keep air conditioners humming. "The terrifying thing is if we have a hot summer," says Robert Esser, a senior consultant at Cambridge Energy Research Associates, "you could have summer [price] spikes." The underlying reason, he says, is growing demand and flat supply. In 2001 and 2003, cold weather led to extraordinary price increases in the winter, when natural gas surged past $10 a million BTUs, but there haven't been such extreme summer price increases before.

A supply crunch during the summer could quickly erase the healthy amount of natural gas being injected into underground storage reservoirs for the winter. Current storage inventory is average for this time of year and in much better shape than a year ago, when low injection rates in the early summer spooked traders and pushed up prices.

Meanwhile, the power-generation industry's natural-gas demand is up 4% from last year and is expected to continue growing. "The underlying demand coming from the power sector is such that you are always going to be strained to meet that demand on the supply side," says Stephen Brink, director of fundamental analysis for EnCana, a Calgary company that is one of the largest North American energy producers.

Regulators OK natural gas line for reopening

John Dodge, The Olympian, June 15

Federal regulators have given Williams' Northwest Pipeline the go-ahead to transport natural gas through a section of pipeline that runs through Thurston County.

The 45-mile-long segment from Fort Lewis to Chehalis is part of the 268-mile-long pipeline that that was shut down in December after two ruptures in the line, including one Dec. 13 near Toledo in Lewis County.

The federal Office of Pipeline Safety and the Pipeline Safety Division of the state Utilities and Transportation Commission had ordered the company to test and repair defective segments of the pipeline, which was installed in 1956.

Tests completed on the south county segment found no signs of weakness or failure, company spokeswoman Bev Chipman said. "The testing went very smoothly," she said. "We found no problems."

Alan Rathbun, pipeline safety director for the state utilities commission, said the portion of the line that runs east of Yelm and Rainier and crosses the Deschutes River south of Tumwater passed the tests without a hitch.

The hydrostatic tests involve filling sections of pipe with water at a pressure higher than what the pipe is exposed to when gas is flowing in it. A leak or break during the test identifies a weak area in the line that must be replaced.

Two other sections -- 17 miles between Mount Vernon and Snohomish and 16 miles of line between Battle Ground and Washougal -- also have been cleared for transporting gas.

The company has 32 miles between Sumas and Mount Vernon left to reach its goal of 111 miles back in service later this month.

By having about 40 percent of the idle line back in service in concert with a newer, parallel line that has continued to deliver gas, Williams can meet the natural gas supply needs of its utility customers this summer, Chipman said.

All of the aging pipe must be replaced within 10 years, according to the December 2003 order.

Vehicle exhaust plan is unveiled

Automakers protest the measure aimed at greenhouse gases.

By Chris Bowman *, Sac Bee June 15, 2004*

California's first-in-the-nation law cutting tailpipe exhausts linked to global warming will add hundreds of dollars to the price of a new vehicle by 2014, but the cost will be more than offset by better fuel economy, state regulators said Monday.

The projected consumer costs are contained in the first draft of rules proposed under a law enacted in 2002 to limit global-warming emissions from cars, pickup trucks and other passenger vehicles.

"No one else in the world has done this," said Jerry Martin, spokesman for the state Air Resources Board. "As the fifth-largest economy in the world, we feel we have an obligation to be a leader in this area as we are in the control of other automotive pollutants."

If adopted, the plan effectively would require auto manufacturers to improve gas mileage. Unlike soot and combustion exhausts that contribute to smog, the only way known to lower the exhausts believed to alter climate is to cut fuel consumption.

Automakers have threatened to sue California on grounds that the law is a subterfuge for regulating fuel economy, which only the federal government has authority to control.

"It's illegal," said Eron Shosteck, spokesman for the Alliance of Automobile Manufacturers, representing the world's largest automakers, except Honda.

The plan released Monday would require manufacturers to reduce by nearly 30 percent the emissions of carbon dioxide and other greenhouse gases, so named because of their heat-trapping effect in the atmosphere.

Most scientists say the combustion of fossil fuels from vehicles, power plants and other human activities in the last few hundred years is accelerating the rate of climate change. California officials say the change threatens to shrink the state's water supplies, inundate coastal communities and worsen wildfires.

Under the greenhouse gas law, written by Assemblywoman Fran Pavley, D-Agoura Hills, the Legislature has a year to review the regulations before they take effect, in 2006.

The air board proposal calls for imposing the emission reductions beginning with 2009 model year vehicles and gradually increasing the reductions through 2015.

By 2014, the engine modifications on average would result in increased vehicle prices ranging from $780 for cars to $1,177 for big passenger trucks, according to the air board proposal.

The law requires only that manufacturers achieve "the maximum feasible and cost-effective reductions of greenhouse gas emissions," leaving it to automakers how exactly to accomplish that.

The board proposal suggests engine-design changes that lower friction in combustion cylinders and improve valve timing but sidestep changes controversial in the auto industry, such as reducing the size and weight of vehicles or eliminating accessories that increase fuel consumption.

The U.S. Environmental Protection Agency has declined to adopt similar regulations, saying the greenhouse gases technically are not "pollutants" as defined under the federal Clean Air Act. California Attorney General Bill Lockyer has sued the Bush administration, challenging the decision.

The California proposal is unprecedented in that it broadens the scope of emissions regulation beyond pollutants shown to cause direct harm to people, such as cancer-causing diesel soot and smog.

The proposal targets carbon dioxide, methane and nitrous oxides, which are not hazardous to breathe but are believed by most scientists to trap Earth's heat, like the panels of a greenhouse. This "greenhouse effect" raises the atmospheric temperature, which can lead to changes in sea levels, water supplies and crop production, and worsen disease and wildfires, scientists say.

The air board is accepting public comments on the proposal, which can be read in full at www.arb.ca.gov/cc/cc.htm. The board is accepting public comment through July 6 and is scheduled to vote on a final draft Sept. 23.

Air cleanup plan

Officials say the state proposal to fight global warming would:

• Reduce greenhouse gas emissions from passenger cars and light trucks by nearly 30 percent.
• Add an estimated $780 to $1,177 to the price of new vehicles by 2014.
• Encourage certain vehicle technologies such as turbocharging with smaller engines, smoothershifting transmissions and reduced hose leaks from air conditioners.
• Result in a net decrease in vehicle operating costs. To review the proposal online, go to: **www.arb.ca.gov/cc/cc.htm**

Source: California Air Resources Board

In The Northwest: It's time for consumers to get angry at the FERC

By JOEL CONNELLY, PI, June 16

The language is less foul, but the latest batch of Enron documents shows how energy traders found a gold mine while West Coast ratepayers were given the shaft.

Our manipulated power shortage of 2000-2001 sent jolts through the economy for which the Northwest is still paying. Just ask the aluminum smelter workers who lost family-wage jobs, or those in cold storage plants who felt the chill of soaring electrical rates.

Sure, the stuff is less sexy than the Scott Peterson murder trial, or O.J. Simpson reflecting 10 years later on his quest for the killers of his ex-wife.

Still, this region MUST remember what was done to its reliable, inexpensive energy source during the Wild West heyday of deregulation. Forget and we will be condemned to repeat the experience.

If citizens don't start getting angry at the laggard Federal Energy Regulatory Commission -- charged under the Federal Power Act with seeing that rates are "just and reasonable" -- we won't get back any of the $1.1 billion that Enron ripped off from the West.

Want to get mad? Just read this transcript from Enron traders on how power transmission lines were loaded up during periods of peak use.

"If the line's not congested then I just look if I can congest it," says one trader.

"Right, right," responds a colleague.

"So, like those hours, if you can congest it, that's a money-maker no matter what, 'cause you're not losin' any money to move it down that line," explains the first trader.

On another occasion, Enron bought power in California and transported the electricity to Malin, Ore. A utility was paid $5 per megawatt hour to "launder" (disguise the origin of) the power.

Enron then sold the power back to California on an emergency "Out of Market" basis for $750 a megawatt hour. The Houston-based company made $222,678 on the deal.

We've previously learned of manipulation strategies with names like "Ricochet" and "Death Star."

More new Enron trading schemes have been identified, named: "Ping Pong," "Sidewinder," "Donkey Punch," "Spread Play" and "Russian Roulette."

The treasure trove of information comes courtesy of the Snohomish County Public Utility District, which is being sued for $122 million by Enron as a result of breaking one of the sky-high contracts.

What of the regulators who were supposed to safeguard the public against getting bitten by "Sidewinder" or kicked by "Donkey Punch"?

The Federal Energy Regulatory Commission's trial staff tried to quash the subpoena by which the Snohomish PUD's attorneys got hold of Enron's damning audiotapes.

The commission has failed to use its authority, under sections 205 and 206 of the Federal Power Act, to determine if power contracts with Enron were "just and reasonable."

The commission is apparently holding onto still more Enron documents that have not been released to the public. Sen. Maria Cantwell, D-Wash., and the Snohomish PUD are working backstage to pry loose the additional evidence.

So far in its investigation, the commission has identified just $6.3 million in unjust Enron profits for the period between Jan. 1, 2000, and June 20, 2001.

Yet, as Cantwell wrote in an angry letter to FERC Chairman Patrick Wood III on Monday, "many of the tapes suggest that Enron's daily profits were in the millions of dollars." Based on its study of documents released so far, the Snohomish PUD estimates that Enron illegally obtained at least $1.1 billion in profits from the West's ratepayers.

"It will be next to impossible for the ratepayers of the West to get the justice they deserve if FERC continues to either ignore or suppress evidence demonstrating Enron's intent to manipulate markets and gouge consumers," Cantwell wrote.

Cantwell called on the commission to "open a new investigation." Don't hold your breath.

A couple familiar names crop up in thinking about how to get to the bottom of the great 2000-2001 power rip-off, and make amends: One is Ronald Reagan, the other George W. Bush.

Reagan made an unholy mess of the U.S. Environmental Protection Agency by staffing the agency with ideological soul mates. The head of the vital Superfund cleanup program, Rita Lavelle, actually went to jail for lying to Congress.

The administration had the smarts to clean up the damage it caused. The "ice queen," EPA Administrator Ann Gorsuch Burford, was ousted. The EPA's first administrator, William Ruckelshaus, was brought back from the boardrooms to head the troubled agency.

Would Bush dare do likewise?

Enron Chairman Ken Lay and wife, Linda, gave more than $1 million to the president's political coffers in years before the Houston-based energy trading company went bankrupt late in 2001.

The Lays are No. 10 on a recently compiled list of big-money Bush donors known as "Pioneers."

Lay was part of the Energy Department transition team. He met with Vice President Dick Cheney to make inputs on energy policy.

He commended the name of Patrick Wood III to the White House personnel office for appointment as chairman of the Federal Energy Regulatory Commission.

In our state's 2000 primary, Bush blanketed the airwaves with TV spots carrying the slogan: "A Reformer with Results." Washington gave him a key victory over John McCain.

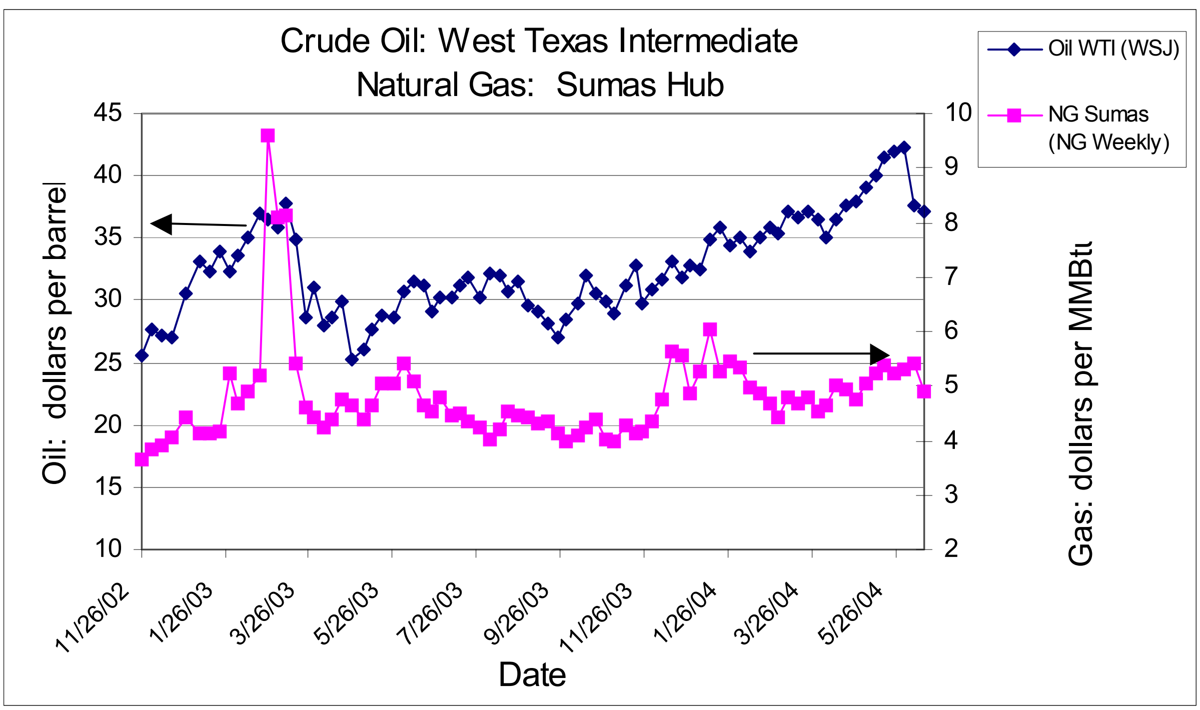
Dubya ought to live up to his own slogan.

The Federal Energy Regulatory Commission needs resignations, reform and results in the form of refunds to West Coast ratepayers. The power rip-off cost the average household a lot more than those ballyhooed $300 tax refund checks the Bush administration sent us.

One more suggestion:

Instead of shaking down rich Republicans in Spokane this week, George W. Bush should sit down with laid-off Kaiser Aluminum workers and learn what it is like to lose a living wage.

Crude oil prices declined for the second week as OPEC gradually increased production and oil market speculators took a pounding. State average prices for retail gasoline and diesel declined about a nickel this week, to $2.24/gal. and $2.18/gal respectively. Natural gas prices have declined slightly as oil prices have come down. Prices will begin to rise as hot summer weather arrives in the next several weeks and air conditioning use increases.



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